

## Message Text

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ACTION EB-07

INFO OCT-01 AF-06 EUR-12 IO-11 ISO-00 SP-02 AID-05 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03

LAB-04 SIL-01 L-03 H-02 PA-01 PRS-01 /104 W

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R 271345Z FEB 76

FM AMEMBASSY PRETORIA

TO SECSTATE WASHDC 3896

INFO AMCONSUL CAPE TOWN

AMCONSUL DURBAN

AMCONSUL JOHANNESBURG

USMISSION OECD PARIS

USDEL MTN GENEVA

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CAPE TOWN ALSO FOR EMBASSY

E.O. 11652: N/A

TAGS: EFIN SF

SUBJ: CONTROLS ON BANK CREDIT; TIGHTER EXCHANGE CONTROL

1. TWO MEASURES TO CURB THE OUTFLOW OF FOREIGN EXCHANGE WERE ANNOUNCED LAST WEEK.

2. THE RESERVE BANK HAS PLACED DIRECT CONTROLS ON DISCOUNTS, LOANS AND ADVANCES BY THE BANKS TO THE PRIVATE SECTOR. THESE WILL BE ALLOWED TO INCREASE ONLY ONE-HALF TO ONE PERCENT PER MONTH FROM THE AMOUNTS OUTSTANDING IN DECEMBER, 1975.

3. EXCHANGE CONTROL REGULATIONS ARE BEING TIGHTENED TO REQUIRE RECIPIENTS OF FOREIGN EXCHANGE TO SELL IT TO THE RESERVE BANK WITHIN SEVEN DAYS INSTEAD OF THE 30 DAYS PREVIOUSLY ALLOWED. THERE WILL ALSO BE A SLIGHT TIGHTENING OF THE REGULATIONS

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GOVERNING THE RELEASE OF FOREIGN EXCHANGE TO IMPORTERS.

COMMENT. WE CONSIDER THAT THESE MEASURES WERE DICTATED BY DESIRE TO AVOID FONEX LOSSES THROUGH OPERATION OF LEADS AND LAGS WHICH WAS IMPORTANT FACTOR LEADING TO SEPTEMBER 1975 DEVALUATION. BUSINESS COMMUNITY FEARS FURTHER DEVALUATION BECAUSE OF CONTINUED B/P DIFFICULTIES GROWING LARGELY FROM CONTINUED DEPRESSED GOLD PRICE AS WELL AS SOME DIMINUTION OF CAPITAL INFLOWS REFLECTING POLITICAL UNCERTAINTIES OF SOUTHERN AFRICA AND CONTINUED DEPRESSED ECONOMIC CONDITIONS OF WESTERN WORLD. GOVERNOR DE JONGH OF RESERVE BANK HAS RELATED DOMESTIC CREDIT RESTRICTIONS TO LEADS AND LAGS SITUATION, I.E. BY RESTRICTING DOMESTIC CREDIT HE HOPES TO FORCE BUSINESS TO BRING BACK THEIR FUNDS FROM OVERSEAS ASAP. HE RECOGNIZES THAT CREDIT RESTRICTIONS WILL SLOW DOMESTIC RECOVERY, BUT CONSIDERS THAT IT WILL ALSO THUS HAVE SECONDARY EFFECT OF REDUCING INFLATION RATES. THIS RELIANCE ON MONETARY POLICY AT PRESENT TIME REFLECTS FACT THAT FISCAL MEASURES SUCH AS NEW TAXES CANNOT BE INTRODUCED UNTIL FULL BUDGET PRESENTED IN MARCH TO PARLIAMENT. MINI-BUDGET INTRODUCED FEB 9 UNDER SAG CONSTITUTIONAL PRACTICE CANNOT PROVIDE FOR TAX CHANGES.

4. BOTH MEASURES ARE SEEN AS EFFORTS TO STEM THE OUTFLOW OF FOREIGN EXCHANGE, ALTHOUGH THE CREDIT CONTROLS WILL OF COURSE SERVE TO DAMPEN ECONOMIC ACTIVITY AS WELL AS TOMAKE THE FINANCING OF FOREIGN EXCHANGE OUTFLOWS MORE DIFFICULT.

5. BANKERS ARE REPORTED "PUZZLED" BY THE DIRECT CONTROLS ON LENDING. PREVIOUS MEASURES TO INCREASE THE LIQUID ASSET REQUIREMENTS OF THE BANKS WERE REPORTED TO BE BEGINNING TO HAVE THE DESIRED EFFECT OF SLOWING DOWN CREDIT CREATION. DIRECT CONTROLS COMING ON TOP OF INCREASED LIQUID ASSET REQUIREMENTS ARE TAKEN AS A SIGN OF GREATER CONCERN OVER MONEY OUTFLOWS THAN WAS PREVIOUSLY APPARENT.

6. ADVERSE "LEADS AND LAGS" FACTORS WERE IMPORTANT ELEMENTS IN THE DECISION TO DEVALUE LAST SEPTEMBER AND HAVE AGAIN BECOME TROUBLESOME. BALANCE OF PAYMENTS UNDERLYING CURRENT ACCOUNT ALSO BELIEVED TO BE IMPROVING AT MUCH SLOWER RATE THAN AUTHORITIES HOPED AFTER THE LIMITED OFFICIAL USE

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DEVALUATION.

7. NEW OR INCREASED TAXES CANNOT BE INSTITUTED UNTIL FULL BUDGET PRESENTED IN MARCH. AUTHORITIES APPARENTLY SEE SITUATION AS SUFFICIENTLY SERIOUS TO JUSTIFY IMMEDIATE ACTION IN THE MONETARY SPHERE.  
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## Message Attributes

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**Draft Date:** 27 FEB 1976  
**Decaption Date:** 01 JAN 1960  
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**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
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**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
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